

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REVIEW REPORT
OF
STATE PERSONNEL DEPARTMENT
STATE OF INDIANA

July 1, 2005 to May 31, 2007



FILED
11/09/2007

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AGENCY OFFICIAL

Office

Official

Term

Director

Debra Minott

01-10-05 to 01-11-09



STATE OF INDIANA

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE STATE PERSONNEL DEPARTMENT

We have reviewed the receipts, disbursements, and assets of the State Personnel Department for the period of July 1, 2005 to May 31, 2007. State Personnel Department's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the State Personnel Department are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

September 26, 2007

STATE PERSONNEL DEPARTMENT
REVIEW COMMENTS
May 31, 2007

INTRODUCTION

The State Personnel Department (SPD) oversees the benefit programs provided to state employees. SPD negotiates contracts with third-party administrators (TPA) to administer the various plans. During our review we noted concerns related to the internal controls over several benefit funds.

INTERNAL CONTROLS OVER DISABILITY FUND

State employees who qualify for disability receive biweekly benefit payments from the State through the TPA. When reclassified from short-term to long-term disability (LTD), employees are required to file for federal Social Security Disability (SSD) benefits. The SSD application/approval process is a lengthy multi-step process and can take months to complete. Employees must keep the TPA updated on their application progress. According to the State disability plan, if an employee fails to complete the federal SSD application process, his/her State LTD benefits are to be terminated until they comply with the plan's SSD requirement.

When employees are approved for federal SSD, they receive a lump sum SSD award backdated to the initial date of the SSD application. During the SSD application process these employees received State LTD payments. The SSD award is a dollar for dollar offset against the State's disability payments. Therefore, employees who received SSD awards must remit all or a portion of their initial SSD lump sum payment to the State to avoid being paid twice for the same benefit. As part of their contractual agreement, the TPA is responsible to notify the employees and recover these SSD lump sum payments.

During our testing of LTD claims, we found two employees that had been reclassified to LTD more than two years earlier but their files did not contain documentation on their SSD application status. Subsequently, we requested that the TPA perform a review of their records. The TPA determined that of the 320 LTD files they reviewed, 45 lacked proper TPA follow-up procedures to ensure compliance with the State disability plan. These employees' LTD benefits should have been terminated until they complied with the plan's SSD requirement.

In addition, we calculated that on September 27, 2006, a total of \$900,633.10 was due to the State's disability fund for SSD lump sum payments received by State employees which were not remitted to the State. At that time, the TPA had no procedures in place to pursue these funds. We learned on July 24, 2007, that the TPA had instituted procedures to collect these funds of which \$685,809.31 was still outstanding. This calculation did not include any SSD awards that the 47 employees discussed above may have received and did not remit to the State.

For good internal controls, the SPD should have adequate monitoring procedures over the disability fund to avoid benefit overpayments.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

STATE PERSONNEL DEPARTMENT
REVIEW COMMENTS
May 31, 2007
(Continued)

INTERNAL CONTROLS OVER DENTAL FUND

The TPA of the dental plan bills the State for administrative fees which are based on the number of employees enrolled in the plan each pay period.

While reviewing administrative fees paid to the TPA, we found that the TPA was paid twice for 11 of the same employees. We also found that fees included 15 former employees who were no longer enrolled in the State's dental plan. The SPD is currently negotiating with the TPA for appropriate credits/reimbursements for any duplicate administrative fees.

For good internal controls, the SPD should have adequate monitoring procedures over the dental fund to avoid paying incorrect administrative fees.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

INTERNAL CONTROLS OVER HEALTH INSURANCE FUND

The TPA of the health insurance plan bills the State for administrative fees which are based on the number of State employees enrolled in the plan each pay period.

From our testing of administrative fees for 2005 and 2006, we found that the State paid duplicate fees for current employees and fees for former employees who left State employment and were no longer enrolled in the plan. We brought these discrepancies to the attention of the SPD and the TPA in 2006.

As of January 31, 2007, the TPA refunded a total of \$27,516.36 to the Fund in the form of credits (See Summary, page 9) and had instituted procedures to review for duplicate administrative fees. However, in our review of 2007 billings, we noted instances of duplications found by the TPA that were not credited or not credited correctly.

For good internal controls, the SPD should have adequate monitoring procedures over the health insurance fund to avoid paying incorrect administrative fees.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

STATE PERSONNEL DEPARTMENT
EXIT CONFERENCE

The contents of this report were discussed on October 17, 2007, with Debra Minott, Director; Jack Borgerding, Deputy Director; and Tonya Fortner, Finance Director. The official response has been made a part of this report and may be found on pages 7 and 8.

October 31, 2007

Mr. Bruce A. Hartman, State Examiner
Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204-2765

Official Audit Response

Dear State Examiner Hartman:

Thank you for the efforts expended by the State Board of Accounts in the audit covering July 1, 2005 through May 31, 2007. Given the complexities of our benefit programs, the number of accounts for which we are responsible, the amount of money transacted and our limited resources, we are encouraged that the review comments are so few in number and involve relatively such small amounts.

Formal responses to the specific comments follow:

INTERNAL CONTROLS OVER DISABILITY FUND

The third party administrator of the disability fund, JWF Specialty Company (JWF) is following-up on the applications for social security disability benefits for the forty-seven (47) long-term disability files that lacked proper documentation. JWF has implemented procedures to avoid recurrence, including re-training for all employees. The State Personnel Department (SPD) has also implemented additional procedures to monitor the vendor's compliance with the plan's requirements.

SPD and JWF have worked diligently together over the past year to institute a process to pursue the collection of whole or partial social security lump sum awards made for periods in which the employees were receiving state disability benefits. In those instances where these combined efforts are not successful, the delinquent collections will be turned over to the appropriate agency(s) that have prosecutorial discretion.

INTERNAL CONTROLS OVER DENTAL PLAN and HEALTH INSURANCE FUND

SPD recognizes that administration fees are sometimes charged by the providers for employees who have terminated employment and are therefore no longer eligible for the benefit as an employee. Nearly all identified fee duplications can be directly attributed to the state's inability to accurately report terminations to the providers in a timely manner. If the employing agency does not initiate a termination in the HR computer system, the file transmitted to the provider will not reflect the termination, hence, the provider is given the impression that the employee is still eligible for benefits and therefore subject to the administrative fee. If the termination is not entered timely, the file to the provider will never reflect a termination code. Vendors have been made responsible to identify employees who (without termination codes) drop off the eligibility file. In a January 8, 2007 memorandum to IOT, SPD formally recorded its request for resolution of several problems with the data transmitted to the benefit providers. To date, the changes have not been made. Until inadequacies in the State's programming of the PeopleSoft system are addressed, SPD will continue to be challenged to identify these problems and take corrective action, after the fact. We ask the State Board of Accounts help alleviate these problems by auditing: (1) the deficiencies recited in the January 8, 2007 memo; and (2) the timeliness of entry of personnel transactions into PeopleSoft.

For those employees who were identified as being covered by the State Police Dental Plan as well as the State Personnel Dental Plan, SPD will remind State Police to utilize the correct transfer codes (that were specifically designed to prevent this duplication of benefits from happening).

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October 31, 2007
Official Audit Response
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As with all the benefit plans that are the responsibility of this office, SPD will continue to monitor the administration of the plans, take corrective actions on issues as they are identified, and work with all parties involved in preventing the problems caused by multiple data sources and computer systems.

Once again, we commend Dan Heilman and Chris Nill for their courtesy, professionalism, and cooperative assistance throughout this audit process. We appreciate and invite your continued participation to ensure that proper methods, standards and procedures are being employed in all of these accounting systems.

Sincerely,



Debra F Minott
Director,

STATE PERSONNEL DEPARTMENT
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Anthem Blue Cross Blue Shield:			
Internal Controls Over Health Insurance, page 5	\$ 27,516.36	\$	\$
Billing statement credits on December 13, 2006,			
December 20, 2006, and January 31, 2007	<u>-</u>	<u>27,516.36</u>	<u>-</u>
Totals	<u>\$ 27,516.36</u>	<u>\$ 27,516.36</u>	<u>\$ -</u>